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Iberia

Cotton and Products

Annual

2005

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Report Highlights:
U.S. cotton exports into the Iberian Peninsula (Spain and Portugal) will likely remain under pressure during marketing year (MY) 2005/06 (August/July), even though the local production will fall short of last year's output. The upside potential for U.S. exports will likely be eroded by a number of converging factors, which when combined, will substantively reduce cotton demand in the Iberian market. (LR30SH6)

Includes PSD Changes: No
Includes Trade Matrix: No
Unscheduled Report
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[SP]

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Executive Summary

FAS/Iberia forecasts a continuing decrease in Iberian raw cotton imports. The forecast Portuguese and Spanish MY 2005/06 raw cotton imports will be at 55,000 tons and 10,000 tons, respectively, down slightly from 60,000 tons and 14,000 tons in MY 2004/05. Iberian imports of U.S. cotton will be down in MY 2004/05 from previous years, due to a reduction in total cotton use in Spain and Portugal, but will remain at around 500 and 900 tons, respectively, during MY 2005/06.

MY 2005/06 raw cotton exports from the Iberian Peninsula will be less that MY 2004/05, because of the drought reduced crop and reduced planted acreage. We forecast total Spanish raw cotton exports in MY 2005/06 at 40,000 tons, down from 90,000 tons in MY 2004/05.

We expect to see a further reduction in Iberian raw cotton exportable supplies in the medium-to-long term, as a result of the Common Agriculture Policy (CAP) reform, which will be initiated during MY 2006/07. Under the reform, farmers will have 65 percent of their production subsidy de-coupled from production. CAP reform will likely lead to a reduction in the number of Iberian farmers that view cotton production as the most profitable use of their fixed and variable inputs.

Iberian Peninsula raw cotton production will be down in MY 2005/06, as a result of a severe drought currently affecting crop development on the Peninsula (please see SP5004 and 5013). We forecast Iberian raw cotton production at 260,000 metric tons in MY 2005/06, down from 349,726 tons in MY 2004/05. Roughly 95 percent of Iberian Peninsula production comes from the Spanish Autonomous Region of Andalusia.

The Multi-Fibers Agreement (in force as of January 2005) and the relative strength of the Euro will further reduce the competitiveness of local textiles manufacturers in traditional EU and third-country markets. Over the long term, Iberian raw cotton use will continue downward as local textiles manufacturing loses ground to Asian textile producers.
Cotton use in Spain and Portugal will be down in MY 2004/05 relative to previous year levels, due to the closing of several major mills, but will remain stable in MY 2005/06 at about 255,000 and 55,000 tons, respectively, before declining again in out years. Some local spinners have closed, while many larger operations have relocated cotton milling to countries with more favorable costs, such as Vietnam, China, India and Pakistan.

Production, Supply & Distribution Tables

PSD Table

Country Spain
Commodity Cotton

(HECTARES)(TONS)

	2003 USDA Official [Old]	Revised Post Estimate [New]	2004 USDA Official [Old]	Estimate Post Estimate [New]	2005 USDA Official [Old]	Forecast Post Estimate [New]
Market Year Begin		08-2003		08-2004		08-2005
Area Planted	0	94,700	0	90,200	0	85,000
Area Harvested	92,000	94,700	90,000	90,200	0	85,000
Beginning Stocks	39,844	39,844	26,563	35,321	0	49,021
Production	93,622	295,100	108,863	348,800	0	260,000
Imports	16,983	16,907	14,152	14,000	0	10,000
MY Imp. from U.S.	0	841	0	500	0	500
TOTAL SUPPLY	150,449	351,851	149,578	398,121	0	319,021
Exports	56,391	56,330	51,166	90,000	0	40,000
USE Dom. Consumption	67,495	255,000	60,963	254,000	0	250,000
Loss Dom. Consumption	0	5,200	0	5,100	0	5,000
TOTAL Dom. Consumption	67,495	260,200	60,963	259,100	0	255,000
Ending Stocks	26,563	35,321	37,449	49,021	0	24,021
TOTAL DISTRIBUTION	150,449	351,851	149,578	398,121	0	319,021

PSD Table

Country Spain
Commodity Cotton

(HECTARES)(Bales)

	2003 USDA Official [Old]	Revised Post Estimate [New]	2004 USDA Official [Old]	Estimate Post Estimate [New]	2005 USDA Official [Old]	Forecast Post Estimate [New]
Market Year Begin		08-2003		08-2004		08-2005
Area Planted	0	94,700	0	90,200	0	85,000
Area Harvested	92,000	94,700	90,000	90,200	0	85,000
Beginning Stocks	102,427	102,427	68,285	90,799	0	126,018
Production	240,674	758,612	279,853	896,658	0	668,380
Imports	43,658	43,463	36,380	35,990	0	25,707
MY Imp. from U.S.	0	2,162	0	1,285	0	1,285
TOTAL SUPPLY	386,758	904,501	384,519	1,023,447	0	820,105
Exports	144,964	144,807	131,532	231,362	0	102,828
USE Dom. Consumption	173,509	655,527	156,717	652,956	0	642,674
Loss Dom. Consumption	0	13,368	0	13,111	0	12,853
TOTAL Dom. Consumption	173,509	668,895	156,717	666,067	0	655,527
Ending Stocks	68,285	90,799	96,270	126,018	0	61,751
TOTAL DISTRIBUTION	386,758	904,501	384,519	1,023,447	0	820,105

PSD Table

Country	**Portugal**					
Commodity	**Cotton**				(HECTARES)(TONS)	
	2003 USDA Official [Old]	Revised Post Estimate [New]	2004 USDA Official [Old]	Estimate Post Estimate [New]	2005 USDA Official [Old]	Forecast Post Estimate [New]
Market Year Begin		08-2003		08-2004		08-2005
Area Planted	0	210	0	265	0	200
Area Harvested	1,000	210	1,000	265	0	200
Beginning Stocks	23,079	23,079	19,378	19,235	0	18,461
Production	218	632	218	926	0	600
Imports	83,607	84,739	76,204	60,000	0	55,000
MY Imp. from U.S.	0	928	0	900	0	900
TOTAL SUPPLY	106,904	108,450	95,800	80,161	0	74,061
Exports	435	415	435	450	0	450
USE Dom. Consumption	87,091	87,000	76,204	60,000	0	55,000
Loss Dom. Consumption	0	1,800	0	1,250	0	1,150
TOTAL Dom. Consumption	87,091	88,800	76,204	61,250	0	56,150
Ending Stocks	19,378	19,235	19,160	18,461	0	17,461
TOTAL DISTRIBUTION	106,904	108,450	95,799	80,161	0	74,061

PSD Table

Country	**Portugal**					
Commodity	**Cotton**				(HECTARES)(Bales)	
	2003 USDA Official [Old]	Revised Post Estimate [New]	2004 USDA Official [Old]	Estimate Post Estimate [New]	2005 USDA Official [Old]	Forecast Post Estimate [New]
Market Year Begin		08-2003		08-2004		08-2005
Area Planted	0	498	0	500	0	500
Area Harvested	1,000	498	1,000	500	0	500
Beginning Stocks	59,329	59,329	49,815	49,447	0	47,458
Production	560	1,625	560	2,380	0	1,542
Imports	214,928	217,838	195,897	154,242	0	141,388
MY Imp. from U.S.	0	2,386	0	2,314	0	2,314
TOTAL SUPPLY	274,817	278,792	246,272	206,069	0	190,388
Exports	1,118	1,067	1,118	1,157	0	1,157
USE Dom. Consumption	223,884	223,650	195,897	154,242	0	141,388
Loss Dom. Consumption	0	4,627	0	3,213	0	2,956
TOTAL Dom. Consumption	223,884	228,278	195,897	157,455	0	144,344
Ending Stocks	49,815	49,447	49,254	47,458	0	44,887
TOTAL DISTRIBUTION	274,817	278,792	246,270	206,069	0	190,388

Production

General

Iberia: Production of Un-ginned Cotton in Metric Tons

	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06
Spain	409,518	300,657	336,984	321,589	295,100	348,800	260,000
Portugal	73	0	612	843	632	926	600

Source: Official data up till 2004/05. FAS/Iberia forecast for 2005/06.

Raw cotton production will decline in Spain and Portugal during MY 2005/06, because of a drought. The continuing drought has affected available water resources for spring crop irrigation, which will make cotton planting less attractive and less productive. For more on the Iberian drought, please check FAS GAIN Reports SP5004 and 5013.

Some ninety-five percent of Iberian Peninsula cotton production is cultivated in the Guadalquivir river basin of Andalucia, in the Spanish provinces of Seville, Cordoba, Cadiz and Jaen. Smaller areas are located in Cartagena in eastern Spain (about 3,000 ha), and in the Portuguese Lower Alentejo region. About 7,600 Spanish, and 20 Portuguese farmers cultivate Cotton.

Production Policy

In MY 2006/07, a new cotton regime will be in place, instituted by EU Reg. 864/2004, dated of April 29, 2004. CAP reform will change farmer domestic support regulated through EU-set minimum purchase prices paid by the cotton ginners, up to production ceilings (Maximum Guaranteed Quantity, MGQ). From MY 2006/07 onwards, cotton producers will be eligible to receive direct EU subsidy payments determined on the basis of historic cultivated areas and yields and EU support to the sector. Under new regime, 65 percent of cotton production subsidies will be de-coupled and included in the Single Farm Payment (SFP). The remaining support will be integrated in the country's "financial envelope," and paid to the farmers on a cultivated area-basis. The CAP reform converted the MGQ system into an area-based system, and instituted Maximum Guaranteed Areas (MGAs). For currently effective MGQs, and MGAs and subsidies to be implemented in 2006, please check table below.

We expect cotton CAP reform to reduce production, as many farmers whose margins are below area-linked subsidy levels switch to other crops. According to local sources, once the new regime is implemented, only farmers who can achieve production of 2,000 tons/ha will choose to continue cotton production. This could lead very quickly to a reduction in production to some 140,000 tons in the early stages of implementation.

Iberian MGAs and MQS

	2005	From 2006 Onwards		
	MGQ (Tons)	Base Area	Amount de-coupled	Aid per eligible hectare
Spain	249,000	70,000 ha	1,509 €/ha	1,039 €/ha
Portugal	1,500	360 ha	1,202 €/ha	556 €/ha
EU	1,031,000	425,360 ha	-	-

Consumption

Due to mill closings, total Iberian cotton use will continue to be reduced over the short and medium-to-long term. We expect the largest drop to take place in Portugal, as some large millers have already shut down in August 2004, and more are likely do so till the end of the current marketing year, for reasons of both financial and strategic nature. A large miller based in Guimarães, Fiarel, closed in August 2004, after selling the whole factory into Vietnam to a local miller. Two other large mills - Lameirinho and Coelima - closed down in early CY-2005. These mills belonged to large textile groups, fully vertically integrated, who decided to re-locate spinning operations in India or Pakistan in order to benefit from more attractive operating costs.

Millers that have remained active tend to be part of vertically integrated groups, and produce special yarns and threads. Yarn production from ring-spinning mills is mostly n.e. 30, 24 and 20, and from open-end mills is mostly 16, 12 and 10. Carded and open-end yarn account for some 80 percent of total yarn production. Finer yarns, numbers 40 and over are tending to increase to the detriment of yarns numbers 8 and under, due to the industry trend to specialize in high-quality thin yarns.

The reduction in demand for local textiles is primarily due to the full entry into force in January 2005 of the Multi-Fiber Agreement. Industry sources report that orders for finished textile products are weak and will not recover in the near-term future. Orders placed by international groups have become scarce, and tend to be limited to specific occasions where speed of response is critical. Instead, imports of textile products from countries with low production costs, namely India and China, which have been displacing Portuguese and Spanish textile products in other EU countries. This is affecting all textile product categories, but especially garments in the case of Portuguese textiles, and clothing and home furnishings in the case of the Spanish industry.

Even though Iberian Peninsula textile exports to third-country markets are also being hurt by the Euro appreciation against the dollar, as well as high labor and electricity costs, some segments remain competitive. The more competitive textile industry segments include the Portuguese home-textiles and furnishings, which profit from tradition and good marketing practices, and the Spanish garment industry, which benefits from some recognition attained by Spanish fashion in international markets.

Cotton demand continues to be dominated by SM cotton (1.3/32 and 1.1/16) for ring spinning, which accounts for some 70 percent of total cotton use. The remaining 30 percent consists in SLM cotton (1.1/16 and 1.1/8) for open-end use. Demand for ELS cotton represents a market niche. In Portugal, the industry estimates this niche to represent some 1,500 to 2,000 tons annually, threatened by high thread imports. SM cotton is primarily sourced from Equatorial Africa, and SLM cotton, from Central Africa and the Former Soviet Union. ELS cotton is primarily sourced from the U.S., Egypt and Israel.

Trade

General

Iberia: Un-ginned Cotton Imports in Metric Tons

	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06
Portugal	141,409	135,614	121,283	105,297	84,739	60,000	55,000
Spain	35,406	31,501	29,313	25,785	16,907	14,000	10,000

Source: Official statistics up till 2003/04. FAS Office estimates for 2004/05 and 2005/06.

Iberia: Un-ginned Cotton Exports in Metric Tons

	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06
Spain	54,954	29,339	31,664	17,392	56,330	90,000	40,000
Portugal	166	80	531	360	415	450	450

Source: Official statistics up till 2003/04. FAS Office estimates for 2004/05 and 2005/06.

Iberian raw cotton imports will be reduced in MY 2004/05 from previous years due to reduced spinning activity. According to the official statistics, Portuguese raw cotton imports dropped 16 percent during the first half of MY 2004/05 relative to the same period the previous year, and Spanish by 15 percent. We forecast another import reduction for MY 2005/06, due to a further reduction in spinning.

Iberian imports of U.S. cotton will be down in MY 2004/05 relative to previous year levels. Official trade statistics show that Portuguese imports during the first half of MY 2004/05 were at 757 tons (612 tons in first half 2003/04), but Spanish imports during the same period are reduced from previous year's level.

In Portugal, during the first half of MY 2004/05, Central and Equatorial African countries remained the leading raw cotton import origins, favored by long-standing commercial relations, and favorable quality/price ratios. African cotton accounted for 52 percent of MY 2004/05 MY imports, down from 68 percent the previous year. However, they lost relative importance in the second half of MY 2004/05 to Spanish imports due to the favorable shipping conditions, which include small quantities by truck or rail. Brazilian cotton also regained market share during the first half of MY 2004/05, favored by a larger supply and improved prices.

African countries accounted for 21 percent of Spain's cotton imports during the first half of MY 2004/05, down from 43 percent in the same period the previous year. The EU market share was up as a result of transshipments from Belgium.

We forecast a reduction in Iberian Peninsula exports during MY 2005/06 from MY 2004/05 levels as a consequence of the reduced Spanish crop. Iberian raw cotton exports increased by 59 percent during the first half of MY 2004/05 when compared to 2003/04, with shipments up to other EU countries and Morocco, but down for almost all other destinations.

Factors Affecting U.S. Cotton

U.S. cotton competitiveness in the Iberian Peninsula market is negatively affected by shipping costs and some quality factors. Some importers mention problems with the incidence of neps, high micronaire, and low grades with coloring problems. In addition, some say that many U.S. cotton exporters lack flexibility in trade practices, which are needed by most spinners today to survive in this highly competitive market.

PIMA has emerged in recent years as the most competitive U.S. cotton type. The threads and materials production from ELS cotton have a comparatively high margin vis-à-vis other cotton types. U.S. PIMA cotton competes with Egyptian and Israeli ELS cotton.

Trade Matrices

Import Trade Matrix

Country Spain

Commodity Cotton

Time Period	Aug/July	Units:	Metric Tons		Aug/Jan
Imports for:	2002		**2003**		**2004**
U.S.	858	U.S.	841	U.S.	0
Others		Others		Others	
EU	4,881	EU	4,155	EU	2,929
Tchad	3,622	Australia	2,816	Brazil	1,715
Australia	3,067	Tchad	1,988	Australia	1,159
Zimbabwe	2,688	Zimbabwe	1,515	Zimbabwe	860
Burkina Faso	1,450	Burkina Faso	1,480	Syria	499
Cameroon	1,180	Cameroon	1,079	Chad	438
Benin	1,114	Benin	597	Benin	266
Syria	1,100	Egypt	562	Pakistan	106
Cote d'Ivoire	1,005	Brazil	258	Cameroon	80
Pakistan	892	Pakistan	207	Egypt	50
Total for Others	20,999		14,657		8,102
Others not Listed	3,928				87
Grand Total	25,785		15,498		8,189

Export Trade Matrix

Country Spain

Commodity Cotton

Time Period	Aug/July		Metric Tons		Aug/Jan
Exports for:	2002		**2003**		**2004**
U.S.	0	U.S.	0	U.S.	0
Others		Others		Others	
France	6,623	France	13,875	France	6,412
U.K.	2,591	U.K.	5,658	Portugal	3,050
Portugal	1,440	Portugal	5,425	Belgium	2,355
Other EU	2,082	Other EU	4,242	Other EU	4,155
Morocco	1,379	China	8,821	China	7,602
Switzerland	1,276	Algeria	7,862	Morocco	3,165
Turkey	929	Morocco	3,838	Algeria	2,241
Ukraine	511	Turkey	1,611	India	718
Indonesia	323	Switzerland	1,366	Colombia	607
		Pakistan	1,319	Thailand	467
Total for Others	17,154		54,017		30,772
Others not Listed	238		2,313		732
Grand Total	17,392		56,330		31,504

Import Trade Matrix

Country Portugal

Commodity Cotton

Time Period	Aug/July	Units:	Metric Tons		Aug/Jan
Imports for:	2002		**2003**		**2004**
U.S.	1,726	U.S.	928	U.S.	757
Others		Others		Others	
EU	4,311	EU	9,112	EU	4,453
Chad	13,909	Chad	11,634	Brazil	7,142
Brazil	11,112	Mozambique	8,816	Chad	3,713
Mozambique	9,232	Zimbabwe	6,302	Mozambique	3,463
Zimbabwe	7,979	Egypt	3,752	Zimbabwe	3,300
Mali	6,017	Cameroon	5,397	Cameroon	1,439
Turkey	5,728	Turkey	4,843	Uganda	1,415
Uganda	5,495	Brazil	5,325	Paraguay	1,264
Cameroon	4,608	Uganda	3,999	Tanzania	1,127
Egypt	3,534	Cote d'Ivoire	2,414	Turkey	992
Total for Others	71,925		61,594		28,308
Others not Listed	31,646		22,217		5,843
Grand Total	105,297		84,739		34,908

Export Trade Matrix

Country Portugal

Commodity Cotton

Time Period	Aug/July	Units:	Metric Tons		Aug/Jan
Exports for:	2002		**2003**		**2004**
U.S.	0	U.S.	0	U.S.	0
Others		Others		Others	
EU	332	EU	415	EU	131
Philippines	25			Bangladesh	90
				Hong-Kong	7
Total for Others	357		415		228
Others not Listed	3		0		0
Grand Total	360		415		228

Marketing

Iberia Peninsula cotton importers generally source cotton from a number of countries (please see imports and exports section above). Grades, staple lengths, prices and other specifications are the determining import factors. None of the major cotton exporting countries carries out significant promotional activities in Portugal or Spain.

In Portugal, PIMA cotton from the United States, Egypt and Israel is in fairly constant demand, while other types are of little interest to importers. MEMPHIS cotton continues to be considered uncompetitive by the local trade when compared to African-sourced cotton. San Joaquin Valley cotton competes with cotton shipped from a series of cheaper-price origins, including Australia. Orleans-Texas cotton is generally considered uncompetitive relative to other origins of similar-type cottons.

In Spain, U.S. cotton competes for a diminishing market with Franc-Zone African (FZA), Australia, the New Independent States, Syria, and Argentine. Spanish imports of U.S. cotton include upland cotton, SJV and some Pima. The main competition for SJV cotton is domestic cotton (which is less sticky) as well as Australian cottons. Local industry contacts report Spanish cotton has low-contaminant levels and good ginning properties. African FZA cottons are favored by price/quality ratios and cheap freights.

Portuguese cotton spinners and importers are mostly affiliated with the Oporto-based Portuguese textiles association (ATP). Some 80 percent of total cotton imports are made directly by the larger millers, with only some 20 percent being handled by independent dealers. Third-country exporters rely basically on price advantages and face-to-face contacts (Chad, Mali and Zimbabwe have in-country representatives).

Spanish cotton importers generally are associated with the Spanish National Cotton Exchange, which is based in Barcelona at the following address: CENTRO ALGODONERO NACIONAL; Via Layetana, 32-34 - 3; 08003 Barcelona; Phone:(34-93) 319- 8950; Fax: (34-93)319-8962; E-mail: can@centroalgodonero.com. Web site: www.centroalgodonero.com